AIB Ireland Services PMI®

Service sector output stabilises in December

Key Findings

Business Activity Index climbs to 50.1 in December

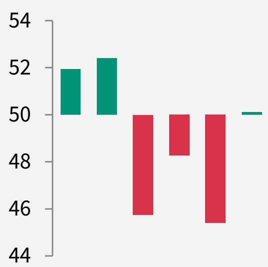
First rise in employment since February

Business expectations strengthen to ten-month high

Ireland Services Business Activity Index

DEC
50.1
NOV: 45.4

Last six months



December PMI® survey data from AIB marked an encouraging end to 2020 for the Irish services economy. Total activity stabilised in the final month of the year, following a three-month downturn. Outstanding business increased for the second month in a row, and employment in the sector rose for the first time since February. New business fell further, but companies grew more confident about the 12-month outlook on the back of positive vaccine developments. Overall business sentiment was the strongest since February.

Commenting on the survey results, Oliver Mangan, AIB Chief Economist, said:

"The AIB Irish Services PMI rebounded in December as the economy reopened following a six week lockdown. The business activity index rose to 50.1 from 45.4 in November. The Irish index is in line with the UK flash December number which increased to 49.9, and is above the Eurozone flash reading which rose to 47.3.

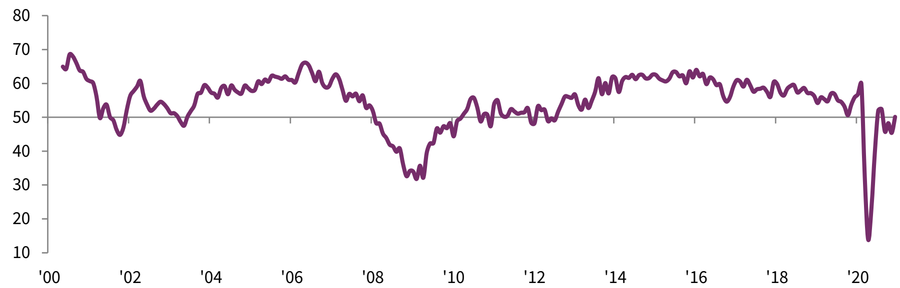
"Overall, the Irish December PMI reading of 50.1 points to still subdued activity levels in the services sector and remains well below historical norms. The volume of new business fell for a fourth consecutive month, albeit modestly, with new export business weakening further in particular.

"However, there were some encouraging trends in the December data. Employment expanded for the first time since February. Firms linked the rise to greater workloads, with the volume of outstanding business increasing for the second month in a row as Covid restrictions were lifted. Pressures on margins eased, with the rate of growth in input prices slowing, while output prices rose for the third time in four months.

"The sub-sector data show that the Transport, Tourism & Leisure sector posted yet another fall in activity, reflecting the fact that it has been the most impacted by Covid restrictions. Encouragingly, the other three sectors all registered an expansion in business activity, with employment and outstanding work volumes rising in the month too.

"Meanwhile, sentiment in regard to the 12-month outlook for activity strengthened again, climbing to its highest level since February. Firms are hoping that the positive news on vaccines will allow for a return to more normal business conditions over the course of next year."

Services Business Activity Index
sa, >50 = growth since previous month



Overview

The headline figure is the Services Business Activity Index, a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The index therefore varies between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

The Services Business Activity Index rose sharply in December to 50.1, from November's five-month low of 45.4. The latest figure indicated a stable trend in the level of activity in the sector compared with one month previously.

Three out of four sub-sectors monitored registered growth of business activity in December. The fastest rate of expansion was signalled in Financial Services, (53.3, ten-month high), followed by Technology, Media & Telecoms (TMT, 50.8, two-month high) and Business Services (50.6, two-month high). Transport, Tourism & Leisure registered another sharp decline in activity, albeit the softest in four months (43.8.).

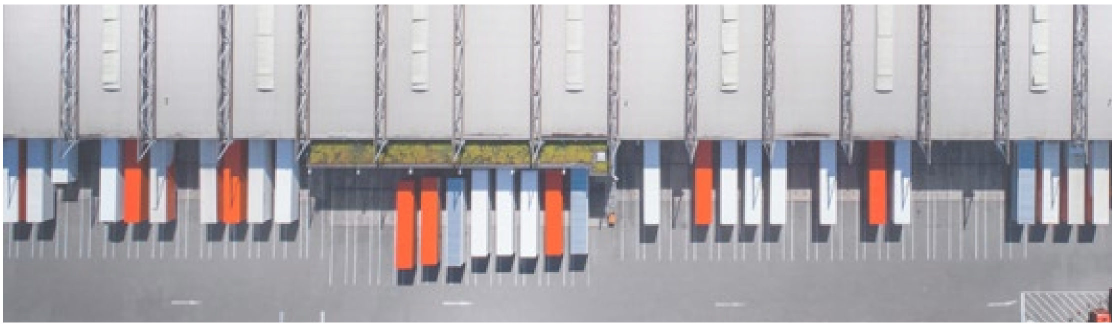
The level of outstanding business rose for the second month running in December, in a sign that overall business levels had begun to recover. The rate of growth in incomplete work remained marginal, however, reflecting an ongoing drag from consumer-facing sectors. Transport, Tourism & Leisure registered another sharp fall in outstanding business, in contrast to further growth in the three remaining sub-sectors.

Growth in outstanding work occurred despite another reduction in new business during the month. Where new business declined, this was mainly linked to ongoing COVID-19 restrictions. Consumer-facing sectors again fared worst in terms of new business, with Transport, Tourism & Leisure recording another marked decline. Overall demand softened only modestly compared with November levels, helped by a stable trend in Financial Services.

Although new business fell slightly in December, the 12-month outlook strengthened further as firms expected positive vaccine developments to allow business levels to approach 'normal' levels by the end of 2021. Overall expectations were the strongest since February, but remained weaker than the long-run survey average.

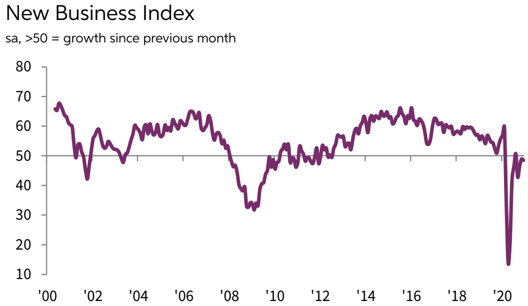
With confidence improving and levels of outstanding business increasing, service sector employment grew in the final month of 2020. This ended a ten-month period of job shedding instigated in March when the first COVID-19 restrictions were introduced. Job creation was seen in the TMT and Business Services sectors, while a stable trend was evident in Financial Services. Transport, Tourism & Leisure saw further job shedding, however.

Average input prices rose for the sixth consecutive month in December, linked to greater wages, fuel, insurance and utilities bills. That said, the rate of inflation eased to a five-month low and remained below the long-run survey average. Meanwhile, prices charged by service providers rose for the third time in four months, albeit only marginally.



New Business Index

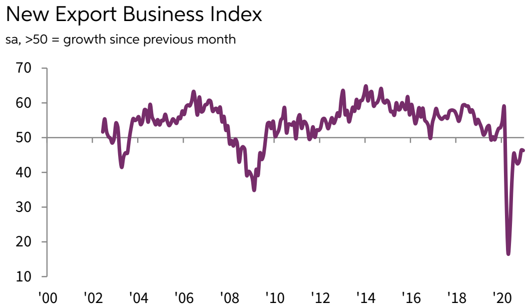
The volume of new business received by Irish service providers fell for the fourth month running in December. The rate of contraction accelerated slightly since November, but remained only modest and much slower than those registered previously in 2020. Where new work declined, this was mainly linked to ongoing COVID-19 restrictions.



New Export Business Index

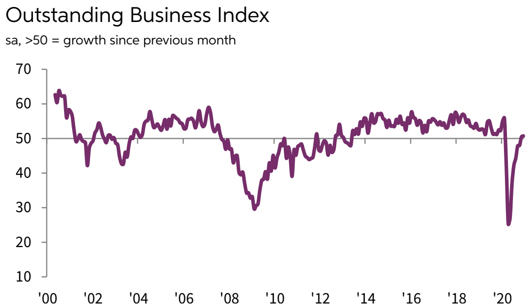
International demand for Irish services fell for the tenth consecutive month in December. Lower business from export markets was mainly linked to the coronavirus pandemic and, to a lesser extent, Brexit.

The rate of contraction was little-changed from November, however, which was the weakest in the aforementioned sequence.



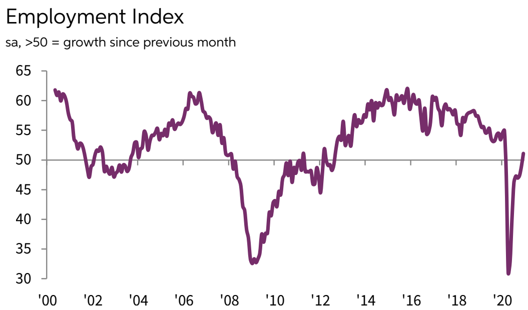
Outstanding Business Index

Survey data indicated a further build-up of outstanding business at the end of 2020. The volume of incomplete work rose for the second month running, following an eight-month downturn. Some firms noted increased pressure on capacity resulting from the lifting of some COVID-19 restrictions. That said, the overall rate of growth remained only marginal in December.



Employment Index

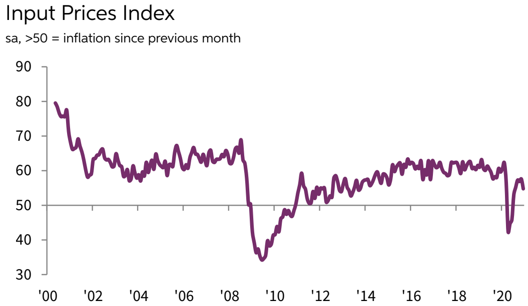
The seasonally adjusted Employment Index rose above the no-change mark of 50.0 in December, indicating growth of service sector headcounts in Ireland for the first time since February. Firms linked recruitment mainly to increased workloads, and also to the return of staff temporarily laid off earlier in the year. The rate of job creation was only modest, however, and weak in the context of historic survey data.



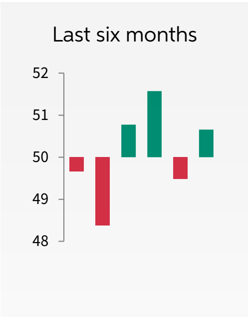
Input Prices Index

Average input prices paid by Irish service providers rose for the sixth consecutive month in December. Firms linked upward pressure on costs to higher wage, fuel, insurance and utilities bills.

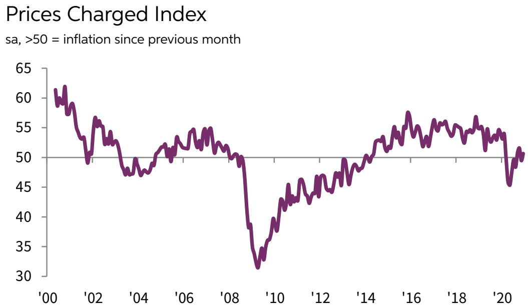
The rate of inflation was solid overall, but eased since November to a five-month low and remained below the long-run survey average.



Prices Charged Index

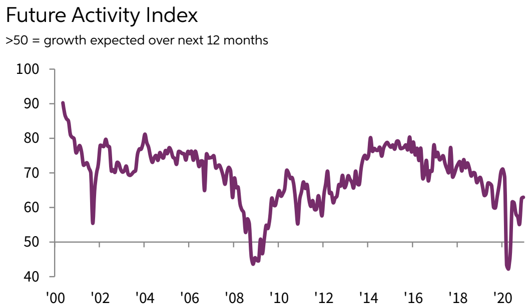


Prices levied by service sector companies rose in December, following a slight decline the previous month. Charges have risen three times in the past four months following a six-month period of discounting. Firms linked increased charges to higher costs, new customers, Brexit and new emissions regulations. The overall rate of charge inflation in the latest period was only marginal, however.



Future Activity Index

Business expectations strengthened again in December, following November's improvement. The Future Activity Index rose for the second month running and signalled the strongest sentiment since February. Improved confidence was linked to hopes that vaccine developments would allow business levels to return to normal in 2021, and also a Brexit settlement. That said, activity expectations remained weaker than the long-run survey average.

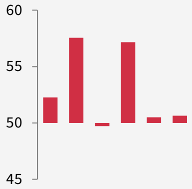


Services Sub-sectors

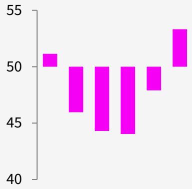
Business Activity Index

Last six months

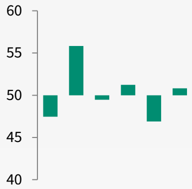
Business Services



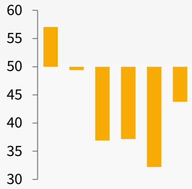
Financial Services



Technology, Media & Telecoms



Transport, Tourism & Leisure



Business Services

Activity in the Business Services sector rose for the third month running in December, albeit at a fractional rate. New business fell slightly since November, although the level of outstanding work rose for the third consecutive month. The workforce was expanded for the third time in four months. Input price inflation accelerated since November but remained relatively subdued, while charges were increased slightly.

Financial Services

Financial services activity rose for the first time in five months in December. Moreover, Financial Services was the fastest-growing among the four monitored sub-sectors for the first time in 2020. New business intakes were stable and incomplete work increased for the third successive month. Employment in the sector was stable, ending an eight-month sequence of decline. Input price inflation slowed notably to a six-month low.

Technology, Media & Telecoms

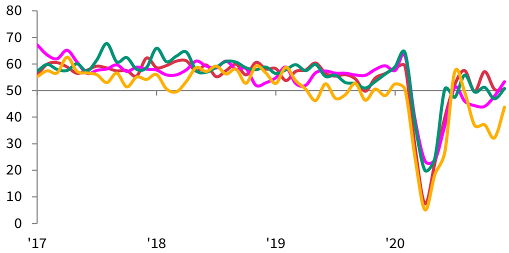
The Technology, Media & Telecoms (TMT) sub-sector saw growth of activity in December following a drop in November. On average over the fourth quarter as a whole, output fell slightly. New business fell slightly in December, but outstanding work continued to rise and firms added to workforces for the third successive month. TMT firms remained the most confident among the four sub-sectors monitored.

Transport, Tourism & Leisure

December saw another marked drop in activity in the Transport, Tourism & Leisure sub-sector, the ninth in total during 2020. That said, the rate of decline slowed notably since November, and business expectations turned positive again. New business, exports and employment all fell at slower rates than in November, and the rate of inflation in prices charged hit an 11-month high.

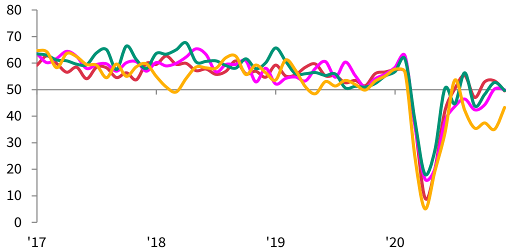
Business Activity Index

sa, >50 = growth since previous month



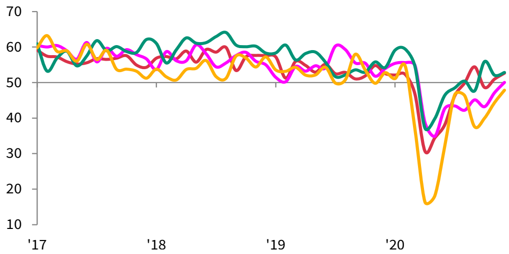
New Business Index

sa, >50 = growth since previous month



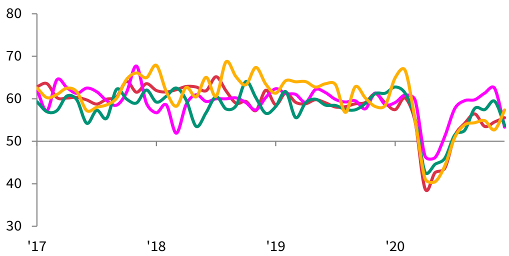
Employment Index

sa, >50 = growth since previous month



Input Prices Index

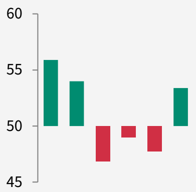
sa, >50 = inflation since previous month



AIB Ireland Composite PMI®

Composite Output Index

Last six months



Private sector output rises solidly in December as service sector activity stabilises

December marked a recovery in growth of private sector output in Ireland, following a three-month downturn. New business also increased for the first time in four months, and employment rose the first time since February. Business expectations eased since November but were still the second-strongest in ten months.

The seasonally adjusted Composite Output Index* rose sharply to 53.4 in December, from 47.7 in November, signalling a solid expansion in activity following three successive declines. The overall growth in output reflected a stronger increase in manufacturing production and a stable trend in service sector activity.

New business rose for the first time in four months in December, despite a further decline among service providers. New export business continued to fall, albeit only marginally, while the latest decrease in the level of outstanding business was only fractional.

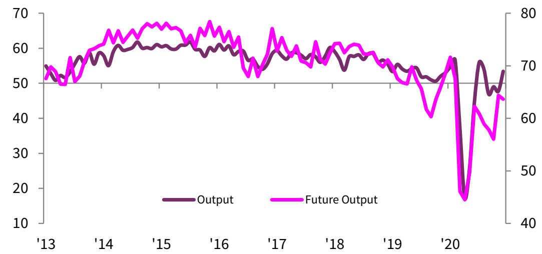
Private sector firms expanded their workforces for the first time since February. The rate of job creation was broadly in line with the long-run series average. Manufacturing employment increased at the fastest rate since April 2019, while service providers increased headcounts for the first time since February.

Expectations regarding the next 12 months eased slightly since November, but were still the second-highest of the past ten months.

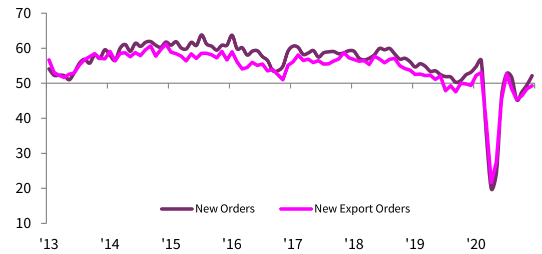
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Output Index
sa, >50 = growth since previous month

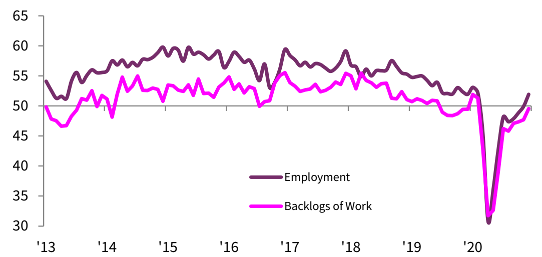
Future Output Index
>50 = growth expected over next 12 months



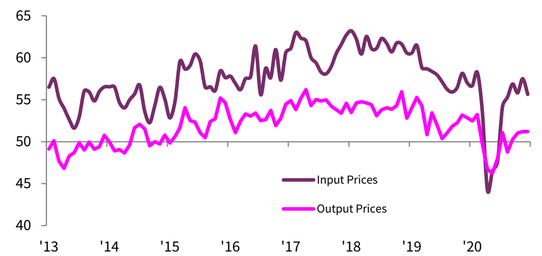
New Business Index / New Export Business Index
sa, >50 = growth since previous month



Employment Index / Outstanding Business Index
sa, >50 = growth since previous month



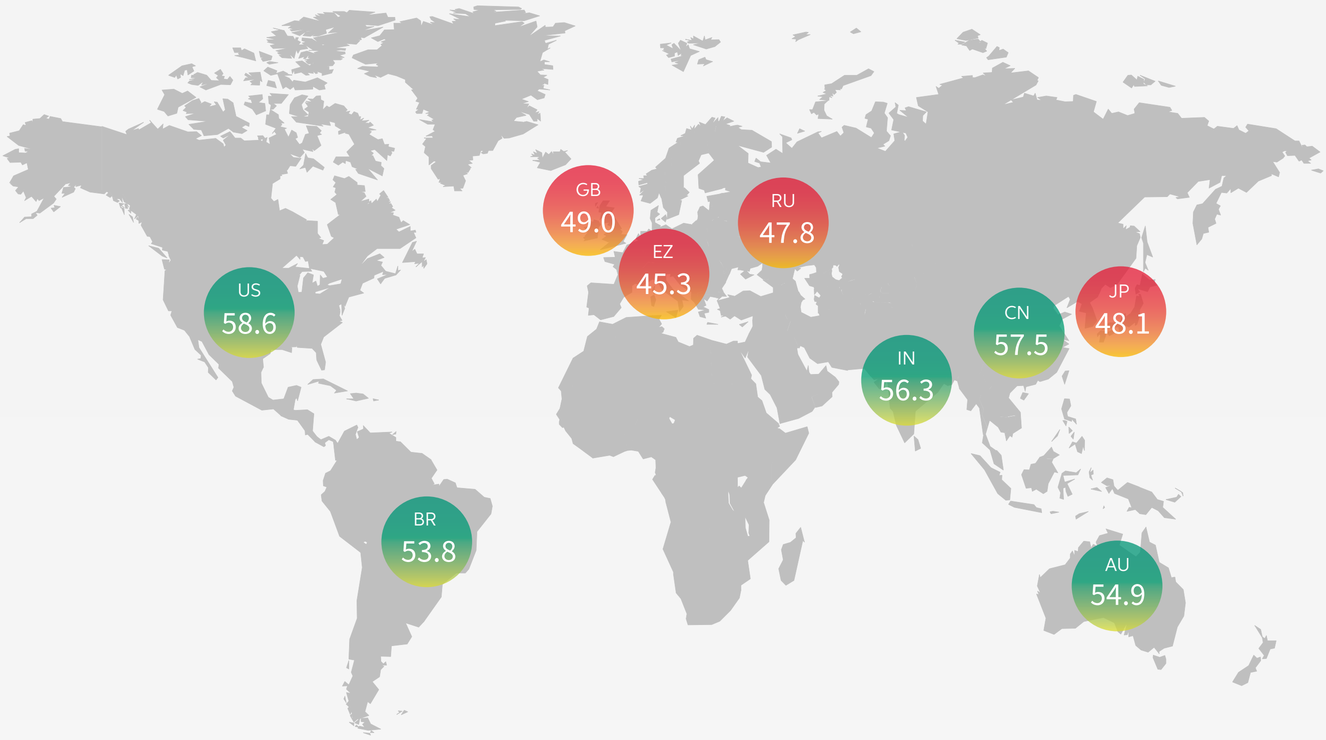
Input Prices Index / Prices Charged Index
sa, >50 = inflation since previous month



International PMI

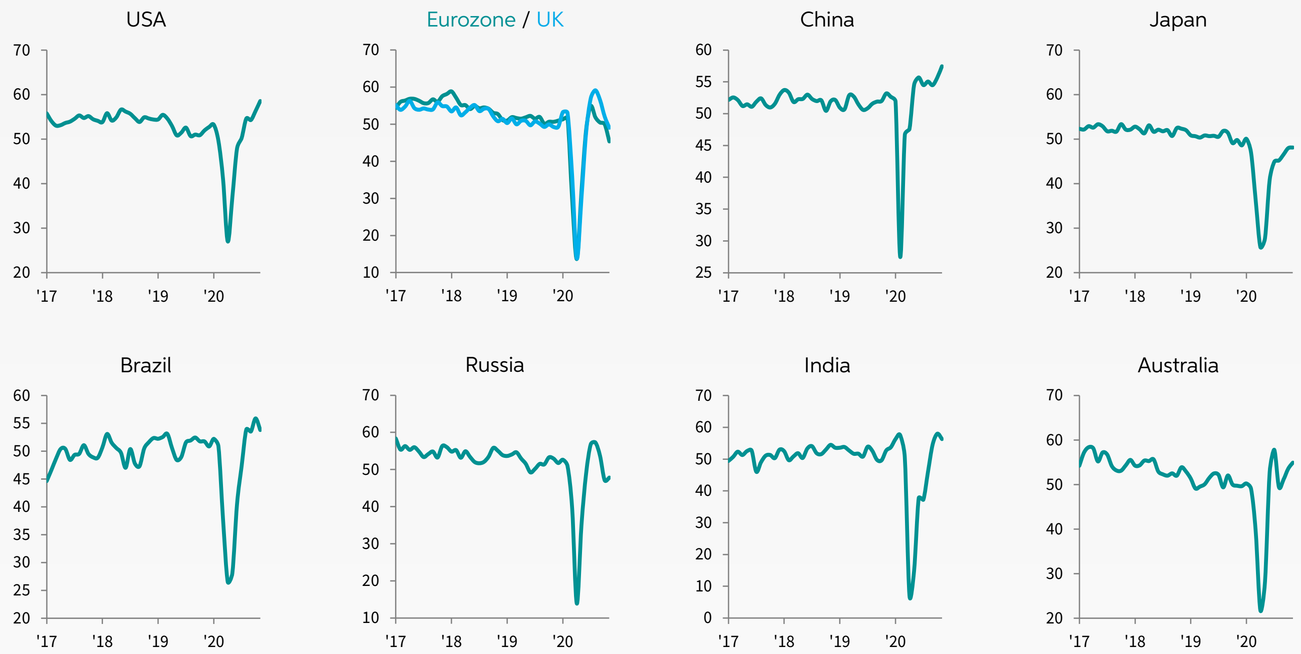
Composite Output Index, Nov '20

sa, >50 = growth since previous month



Composite Output Index

sa, >50 = growth since previous month



Contact

AIB

Oliver Mangan
AIB Chief Economist
T: +353-1-6417176
E: AIBeconomics.Unit@aib.ie
W: www.aibeconomics.com

Paddy McDonnell
AIB Press Office
T: +353-1-641-2869
M: +353-87-739-0743
E: paddy.x.mcdonnell@aib.ie

Graham Union
AIB Press Office
T: +353-1-6412430
M: +353-85-2088343
E: Graham.X.Union@aib.ie

IHS Markit

Trevor Balchin
Economics Director
T: +44-1491-461-065
trevor.balchin@ihsmarkit.com

Katherine Smith
Public Relations
T: +1 781-301-9311
katherine.smith@ihsmarkit.com

Methodology
The AIB Ireland Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Data were collected 4-18 December 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About AIB
AIB is a financial services group operating predominantly in the Republic of Ireland and the UK. We provide a comprehensive range of services to personal, business and corporate customers in our target markets and have leading market shares in banking products in the Republic of Ireland.

About IHS Markit
IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

About PMI
Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. https://ihsmarkit.com/products/pmi.html